

## Being in the Zone Can Pay Off for Businesses

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**W**ith local redevelopment agencies having fallen prey to the governor's budget axe last year, cities and other local jurisdictions are left with precious few tools to revitalize their local economies and create employment centers.

There remains one powerful incentive that has been responsible for much of what has taken place in downtown San Diego, other urban neighborhoods and southward through most of South County.

The San Diego Regional Enterprise Zone is one of 42 such geographically designated areas statewide in which businesses operating within the zone's boundaries can receive substantial tax benefits and other perks. The regional entity, known as "One Zone," is the product of a 2006 merger of the Metropolitan and South Bay enterprise zones whose state charters were expiring.

Unfortunately, only 10 percent to 15 percent of companies eligible for these substantial benefits are using them. The small number of participants is due to a lack of awareness and to the complexities involved in taking part in the program.

### Tax Credits

Companies within enterprise zones are eligible for a tax credit that can exceed \$34,000 per qualified employee hired, earned over a five-year period. Enterprise zone businesses can take a tax credit against the purchase of new manufacturing, computer hardware and software, data processing or communications equipment equal to the sales and use tax amount, up to \$1 million annually for individuals and partnerships and \$20 million annually for corporations.

There's also an accelerated depreciation deduction option for enterprise zone businesses to treat 40 percent of the cost of a qualified property as a business expense in the first year it is placed in service in the zone. Lenders can deduct the net interest earned from loans made to enterprise zone businesses, including business loans, mortgages and loans from noncommercial sources.

Other incentives include no-cost job referral services to help enterprise zone businesses find qualified employees whose wages can qualify for tax credits, expedited processing of development permits and additional assistance, tax savings for enterprise zone employees, and access to special technical and financial assistance programs.

Even with a relative lack of awareness among most eligible businesses, there's been \$1.7 billion invested in the San Diego regional zone over the years, leading to 20,000 jobs created and retained. Hundreds of businesses have received expedited permit applications; even more have obtained technical and financial assistance.

In downtown, such assistance actually has resulted in free access to one of the most coveted amenities in the central business district: parking. Many office tenants in the 92101 ZIP code, including those in high-rise buildings, have received financial "spiffs" enough to more than cover their \$200 per-space monthly parking costs.

One downtown technology firm had been thinking about relocating to Mission Valley, but it abandoned the idea when it realized it would lose more than \$370,000 in state tax credits in such a move outside the enterprise zone.

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Beyond downtown, the covered areas under the One Zone umbrella include the neighborhoods of Little Italy, East Village, Golden Hill and Barrio Logan as well as portions of National City, Chula Vista, San Ysidro, and Otay Mesa. The collaboration of other cities and a wider geography enables San Diego County to better compete with other regions for jobs and investment.

An enterprise zone benefits all who live and work both inside and outside its boundaries. Jobs create additional demand for goods and services wherever the enterprise zone employees choose to live. Increased consumption results in additional sales and property tax revenues to pay for public services.

## Job Creation

Enterprise zones are the best available tool we have to foster job creation, business retention and growth in our region's urban areas – the basic objectives in any economic recovery plan. But we can't be content with the relatively light participation level of businesses in a zone, nor can we take for granted that Sacramento will continue to embrace the program created 28 years ago.

There needs to be a greater outreach effort to engage eligible businesses to take part, thereby expanding the program's economic impact. Likewise, we need to be ever watchful against efforts by lawmakers and the governor to alter or dismantle one of most *enterprising* things state government has done to foster economic progress in the Golden State.

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